

The Weekly Market View

June 26 2023

Hawkish jolt

Last week, central bank hawkish surprise and its possible implication on the growth outlook weighed on the market sentiment. In monetary policy, Fed Chair Jay Powell presented a hawkish outlook at the Semi-Annual Monetary Policy Congressional testimony and signaled that more needs to be done in bringing down the inflation to 2% target. He mentioned that future rate hikes are still on the cards if the current growth trend continues. Adding to the hawkish rhetoric, three DM central banks- Bank of England (BoE), Swiss National Bank and Norges Bank raised policy rates last week. The BoE surprised with a bumper rate hike of 50bp taking the key policy rate to 5%- the highest since 2008. The latest decision came after the May inflation data surprised on the upside. Headline UK CPI inflation for May printed at 8.7% y-o-y (consensus: 8.4% y-o-y) while Core CPI inflation printed 7.1% y-o-y (consensus: 6.9%, and April: 6.8%) at the highest rate since March 1992. Separately, preliminary PMI releases for June painted a gloomy global economic picture. The PMI surveys showed that manufacturing output remained in contractionary trend while services sector continued to exhibit resilience. Furthermore, June PMI surveys pointed to sharper slowdown in the Eurozone and the UK with growth even in services sector failing to match market expectations. On the other hand, US services activity was upbeat and performed better than expected. However, on the other hand, weekly jobless claims hit the highest level since October 2021. Lastly, in Japan, price pressures continued to build with May core CPI print surprising on the upside. Amidst the rise in global central bank hawkishness and focus on slowdown fears, global equities recorded losses, long-dated DM bond yields declined while short-dated DM bond yields rose, USD strengthened and commodities posted sizeable losses.

Glass half full

With the first half of the year almost behind us, we look at the second half through an optimistic lens. We maintain a constructive macro outlook with no global recession in our base case scenario. With that in mind, we make six changes to our tactical asset allocation. 1) **We further downgrade Europe equities to Significant Underweight from Underweight.** Eurozone economic momentum is set to weaken with economic data surprising on the downside while current valuations and recent outperformance not fully accounting for the expected rise in recession probabilities. In addition, European equity indices lack technology-related growth plays that US is rich in. 2) **We introduce an off-benchmark position on Nikkei 225 in JPY terms** on the back of positive tailwinds in the form of BoJ's ultra-dovish policy stance supporting negative real rates, improving corporate governance metrics and better advantage from supply chain re-organisation with the DM economies reducing reliance on China. In order to avoid the currency risk, we recommend positioning in JPY terms. 3) **We downgrade DM Treasuries IG from Neutral to Underweight** as we expect pressure building on DM sovereign bonds with three key DM central banks- Fed, ECB and the BoE slated to raise rates in the summer. 4) **We upgrade EM LCY IG from Underweight to Overweight.** Lower external vulnerability, increased correlation to China growth outlook (which is softening now), better inflation management and prospects (deflation trend in China) act as supporting forces for the asset class. 5) **We trim our underweight on Global HY.** Short-duration assets including HY are likely to be resilient in the near term given the prospects of increased monetary policy uncertainty. However, valuations (particularly in the US) still look stretched amidst the slowdown concerns and hence we remain underweight on Global HY. 6) **We reduce our allocation on Cash and move it to underweight from overweight previously** in order to fund our upgrades elsewhere. To see details on our latest changes in the tactical asset allocation, please see our report **Tactical Asset Allocation: Fooled by bearishness, June 19 2023**

Global markets' performance snapshot

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,348	-1.39	13.25
Dow Jones	33,727	-1.67	1.75
Nasdaq	13,493	-1.44	28.91
DAX	15,830	-3.23	13.69
Nikkei 225	32,782	-2.74	25.87
FTSE 100	7,462	-2.37	0.14
Sensex	62,979	-0.64	3.52
Hang Seng	18,890	-5.74	-4.64

Regional Markets

ADX	9,557	1.17	-6.41
DFM	3,793	0.09	13.68
Tadawul**	11,459	-0.50	9.36
DSM**	10,106	-1.61	-7.85
MSM30**	4,731	1.07	-2.26
BHSE**	1,961	0.25	3.22
KWSE**	7,049	0.65	-4.15

MSCI

MSCI World	2,902	-2.03	11.51
MSCI EM	992	-3.70	3.72

Source: Bloomberg, and ADCB Asset Management

Notes: Notes: *Data as of June 23 2023 unless stated otherwise; **Data as of June 22 2023.

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	73.9	-3.60	-13.96
Nymex WTI USD/bbl	69.2	-3.65	-13.79
Gold USD/t oz	1,921.2	-1.88	5.58
Silver USD/t oz	22.4	-7.32	-5.06
Platinum USD/t oz	921.7	-6.60	-13.10
Copper USD/MT	8,490.0	-0.83	1.23
Alluminium	2,150.9	-3.61	-8.45

Currencies

EUR USD	1.09	-0.39	1.89
GBP USD	1.27	-0.80	5.39
USD JPY	143.70	1.33	8.57

Rates

	Latest	Weekly (bp)	YTD(bp)
SOFR	5.05	0.00	75.00
UAE Eibor 3m	5.22	8.67	91.21
UAE Eibor 12m	5.42	8.77	31.81
US 3m Bills	5.29	7.37	94.59
US 10yr Treasury	3.73	-2.66	-14.01
German 10yr Bund	2.35	-12.00	-21.30
UK 10yr Gilt	4.32	-9.21	65.07

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Summary market outlook

Global Yields Yields on 10Y USTs declined over the week but 2Y UST yields jumped amidst hawkish central bank bias. In Eurozone, yields on 10Y German bunds declined sharply on downbeat PMI release. In the UK, 2YR bond yields increased while 10Y bond yields declined as the BoE surprised with larger rate hike and hinted at more future rate hikes. In Japan, yields on both 10Y and 2Y JGBs fell for the second week. Bond yields and prices are inversely correlated. i.e. yields rise when prices fall and vice versa. Overall, we maintain our slight duration exposure with preference for USTs (7-10Y segment) over other DM sovereigns.

Stress and Risk Indicators VIX index (measure of implied volatility in equities) dropped further, close to pre-pandemic levels. MOVE Index (measure of bond volatility) ended higher despite declining at the end of the week after the BoE surprised with a larger rate hike and the Fed Chair hinted at more interest rate hikes. We expect recession probabilities and uncertainty around the timing of the first rate cut from the Fed to feed into financial market volatility.

Equity Markets

Local Equity Markets GCC equity markets posted mixed signs but outperformed their emerging market and global benchmarks. Within the region, Abu Dhabi, Oman, Kuwait, Bahrain and Dubai posted gains while Saudi and Qatar underperformed. We stay neutral GCC equities within our global equity framework. Stable oil prices, potential for revival in growth prospects, and scope for reversing the underperformance of the past several years are all balanced by lack of structural growth plays in the equity market indices. We would look to play benchmark transformation over next years.

Global Equity Markets Global equities declined last week amidst interest rate hike fears. MSCI ACWI fell 2%. EM equities underperformed DM peers. Within DM, Japanese and European equities underperformed the most in USD terms. On the other hand, US equities outperformed DM peers. We are overweight North America, and Asia Pacific; underweight EMs outside Asia and significantly underweight Europe. Our strategic preference is for large cap non-cyclical growth with focus on quality. We prefer Japanese equity exposure through local indices in local currency terms. Our other high conviction ideas include HK equities and Chinese hotels & leisure (beneficiaries of the post-pandemic reopening of the Chinese economy), and Cybersecurity and Chinese Semiconductors (play on rising deglobalisation risks and national security prominence). For long-term investors, we have identified 13 different themes to play disruptive trends in the global economy.

Technology Segments Nasdaq-100 index fell 1.27% while HK Tech index dropped 8% over the week.

Commodities

Precious Metals Precious metal prices posted losses for a second week. Gold priced fell by 2%, silver & platinum posted significant losses amidst increasing dollar strength and hawkish central bank commentary. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.

Energy Oil prices declined over the week as traders worried interest rate hikes would affect fuel demand despite lower U.S crude stocks. Over the near-term to medium-term, we expect oil prices to move sideways but with significant volatility.

Industrial Metals Industrial metal prices declined over the week, with Aluminum prices declining 3.6%. Copper prices declined but to a much lesser extent than the rest of the commodities. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain. We prefer copper for the near-term.

Currencies

EURUSD The EUR weakened against the USD as disappointing PMI releases out of Eurozone weighed on the growth outlook for the region. We expect euro to stabilize and record a better performance in 2023 compared to 2022.

Critical levels

R2	1.0922	R1	1.0913	S1	1.0893	S2	1.0882
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GBPUSD The GBP weakened against the USD as larger-than expected BoE rate hike raised slowdown concerns. We expect GBP to strengthen versus the USD with the BoE likely to remain the most hawkish of the lot.

Critical levels

R2	1.2784	R1	1.2749	S1	1.2683	S2	1.2652
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USDJPY Strong USD bias and the BoJ's ultra-dovish stance meant that the USD/JPY continued to rise. Yen is likely to remain weak in the near-term in absence of hawkish BoJ bias, but could strengthen once the Fed takes a dovish turn.

Critical levels

R2	144.58	R1	144.14	S1	142.99	S2	142.28
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Forthcoming important economic data/events

United States



Date & Time (GST)	Indicator	Period	Expected	Prior
06/27/2023 16:30	Durable Goods Orders	May P	-0.90%	1.10%
06/27/2023 18:00	New Home Sales	May	657k	683k
06/28/2023 15:00	MBA Mortgage Applications	23-Jun	--	0.50%
06/28/2023 16:30	Wholesale Inventories MoM	May P	--	-0.10%
06/29/2023 16:30	GDP Annualized QoQ	1Q T	1.50%	1.30%
06/29/2023 16:30	Core PCE QoQ	1Q T	5.0%	5.0%
06/29/2023 16:30	Personal Consumption	1Q T	--	3.80%
06/29/2023 16:30	Initial Jobless Claims	24-Jun	--	--
06/29/2023 16:30	Continuing Claims	17-Jun	--	--
06/30/2023 16:30	Personal Income	May	0.40%	0.40%
06/30/2023 16:30	Personal Spending	May	0.20%	0.80%
06/30/2023 16:30	PCE Deflator YoY	May	--	4.40%
06/30/2023 16:30	PCE Core Deflator YoY	May	4.70%	4.70%
06/30/2023 18:00	U. of Mich. Sentiment	Jun F	63.9	63.9
06/30/2023 18:00	U. of Mich. Current Conditions	Jun F	--	68
06/30/2023 18:00	U. of Mich. 1 Yr Inflation	Jun F	--	3.30%
06/30/2023 18:00	U. of Mich. 5-10 Yr Inflation	Jun F	--	3.00%

Japan



Date & Time (GST)	Indicator	Period	Expected	Prior
06/27/2023 09:00	Leading Index CI	Apr F	--	97.6
06/29/2023 03:50	Retail Sales MoM	May	0.80%	-1.20%
06/30/2023 03:30	Jobless Rate	May	2.50%	2.60%
06/30/2023 03:30	Tokyo CPI YoY	Jun	3.40%	3.20%
06/30/2023 03:30	Tokyo CPI Ex-Fresh Food, Energy YoY	Jun	4.00%	3.90%
06/30/2023 03:50	Industrial Production YoY	May P	--	-0.70%
06/30/2023 09:00	Annualized Housing Starts	May	0.832m	0.771m

Eurozone



Date & Time (GST)	Indicator	Period	Expected	Prior
06/26/2023 12:00	Germany IFO Business Climate	Jun	90	91.7
06/26/2023 12:00	Germany IFO Current Assessment	Jun	93	94.8
06/26/2023 12:00	Germany IFO Expectations	Jun	88.5	88.6
06/28/2023 10:00	GfK Consumer Confidence	Jul	--	-24.2
06/28/2023 10:45	France Consumer Confidence	Jun	--	83
06/29/2023 12:00	Eurozone ECB Publishes Economic Bulletin			
06/29/2023 13:00	Eurozone Consumer Confidence	Jun F	--	--
06/29/2023 13:00	Eurozone Economic Confidence	Jun	--	96.5
06/29/2023 16:00	Germany CPI YoY	Jun P	6.30%	6.10%
06/30/2023 10:00	Germany Retail Sales MoM	May	-0.10%	0.80%
06/30/2023 10:45	France CPI YoY	Jun P	--	5.10%
06/30/2023 10:45	France Consumer Spending MoM	May	--	-1.00%
06/30/2023 10:45	France PPI YoY	May	--	7.00%
06/30/2023 13:00	Eurozone CPI Estimate YoY	Jun	5.50%	--
06/30/2023 13:00	Eurozone CPI Core YoY	Jun P	5.30%	5.30%
06/30/2023 13:00	Eurozone Unemployment Rate	May	--	6.50%

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United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
06/28/2023-07/03	Nationwide House Px NSA YoY	Jun	--	-3.40%
06/29/2023 12:30	Mortgage Approvals	May	--	48.7k
06/30/2023 10:00	GDP QoQ	1Q F	--	0.10%
06/30/2023 10:00	GDP YoY	1Q F	--	0.20%
06/30/2023 10:00	Private Consumption QoQ	1Q F	--	0.00%
06/30/2023 10:00	Government Spending QoQ	1Q F	--	-2.50%
06/30/2023 10:00	Exports QoQ	1Q F	--	-8.10%
06/30/2023 10:00	Imports QoQ	1Q F	--	-7.20%
06/30/2023 10:00	Total Business Investment QoQ	1Q F	--	0.70%
06/30/2023 10:00	Total Business Investment YoY	1Q F	--	3.20%

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
06/26/2023-06/30	India BoP Current Account Balance	1Q	\$3.00b	-\$18.20b
06/30/2023 05:30	China Composite PMI	Jun	--	52.9
06/30/2023 05:30	China Manufacturing PMI	Jun	49	48.8
06/30/2023 05:30	China Non-manufacturing PMI	Jun	--	54.5

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